

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TEN)

Docket No. RM2015-19

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-3 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**
(September 16, 2015)

The United States Postal Service hereby provides its responses to Questions 1-3 of Chairman's Information Request No. 2, issued September 8, 2015. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

1. The Postal Service states in its petition that "the separate Cost Segment 4 analysis is based on much more limited IOCS sample data, with the effect that some products (which are undoubtedly present at the offices in some amounts) have no Cost Segment 4 tallies and hence zero costs in a given year." *Id* at 5. Proposal Ten, if approved, would place Cost Segment 4 in Cost Segment 3. Please explain the impact on data validity of a modified IOCS distribution after combining Cost Segments 3 and 4.

RESPONSE:

The Postal Service believes that the combination of Cost Segments 3 and 4 will improve cost data validity in both the near term and longer term.

First, employing the larger set of IOCS tally data for the proposed combination of CAGs H-L should help avoid cases where products have zero measured cost for a fiscal year due to small sample size. (See also the response to ChIR No. 2, question 3.) As noted in the response to ChIR No. 1, Question 3, differences between the CAG K and CAG H/J direct tally distributions have tended not to be statistically significant, while the CAG K tally distributions have tended to be highly variable, so the Postal Service believes that pooling the IOCS data will not bias the CAG K cost distribution. CAG K offices will be appropriately represented in the first-stage (finance number) IOCS sample for the proposed CAG H-L stratum at such time as the IOCS panel is refreshed.

Second, the Cost Segment 4 method currently distributes costs from class to CRA product using total Cost Segment 3.1 costs as a distribution key. Cost Segment 3.1 costs are primarily incurred at mail processing plants with dramatically different cost

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

structures from post offices with Cost Segment 4 clerks. Under the proposal, Cost Segment 4 costs would be pooled with "non-MODS" post office costs in Cost Segment 3 and distributed in the applicable non-MODS post office cost pools in Cost Segment 3 (including window service and administrative pools, not only mail processing).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

2. The Postal Service states in its Errata that “the newly implemented POSTPlan, focused on small offices, has had potentially confusing impacts in both Cost Segments 3 and 4.”¹ There is an implication clerk costs recorded in two different segments (Cost Segment 3 and Cost Segment 4) complicates the analysis of the effects of POSTPlan.
- a. Please explain how clerk costs accounted for in two distinct Cost Segments complicates analysis of the effects of POSTPlan. Please specify the improvements in the analysis arising from the combination, if approved, of the two segments.
 - b. Assuming implementation of Proposal Ten, how will the Postal Service utilize the merged Cost Segment 3 and Cost Segment 4 costs in analyzing the effects of POSTPlan?

RESPONSE:

- a. The complication is simply the need for a hypothetical analysis to combine cost data and/or results from two cost segments subject to different costing methodologies. If the combination of the cost segments is approved, an analysis need only employ Cost Segment 3 data and methods. The purpose of the referenced statements was to indicate that maintaining a separate Cost Segment 4 would not, in principle, facilitate an analysis, since Cost Segment 4 does not uniquely identify either offices affected by POSTPlan or small post offices more generally.
- b. In drafting the Proposal, the Postal Service did not have any specific plans in mind. These passages from the Proposal were merely intended to note that any such analysis would be simpler without the need to separately analyze data from two cost segments.

¹ Notice of the United States Postal Service of Revisions in the Attachment to the Proposal Ten Petition – Errata, August 27, 2015, at 2 (Errata).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

3. The Postal Service states that “the separate Cost Segment 4 analysis is based on much more limited IOCS sample data, with the effect that some products (which are undoubtedly present at the offices in some amounts) have no Cost Segment 4 tallies and hence zero measured costs in a given year.” Petition at 5. From FY 2008 through FY 2013 a portion of Cost Segment 4 costs were assigned to Periodicals.² However, these costs assigned to Periodicals declined from \$642,000 in FY 2013 to zero in FY 2014.
- a. Please confirm that the limited IOCS data set as noted above was the reason that there were no Cost Segment 4 costs allocated to Periodicals in FY 2014.³
 - b. If confirmed, please describe how any changes in the sample strata or IOCS processes would explain the sudden drop-off in costs assigned to Periodicals in FY 2014 in Cost Segment 4.

RESPONSE:

- a. Confirmed.
- b. The Postal Service believes the observed “drop-off” is consistent with IOCS sampling variability given the very small sample of direct tallies for Cost Segment 4. Specifically, the drop-off was from two IOCS direct tallies for Outside County Periodicals in both FY2012 and FY2013 to zero in FY2014. Aggregation of IOCS data to mail class in the Cost Segment 4 attribution model effectively masks similar drop-offs (and drop-ins) for other CRA products over the time period in question. For example, Standard Regular Letters had four IOCS CAG K direct tallies in FY2012, none in FY2013, and four in FY2014.

² Docket ACR2008, Library Reference USPS-FY08-32, December 29, 2008; Docket ACR2009, Library Reference USPS-FY09-32, December 29, 2009; Docket ACR2010, Library Reference USPS-FY10-32, December 29, 2010; Docket ACR2011, Library Reference USPS-FY11-32, December 29, 2011; Docket ACR2012, Library Reference USPS-FY12-32, December 28, 2012; Docket ACR2013, Library Reference USPS-FY13-32, December 27, 2013.

³ Docket ACR2014, Library Reference USPS-FY14-32, December 29, 2014.